



CommunityDevelopmentAuthority

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DATE: November 10, 2022

TO: CDA Board

FROM: Anne Slezak, CDA Finance & Grants Manager

SUBJECT: Resolution #4522 Authorizing Extension of Johnson Bank Loan

In reference to Resolution #4522 Authorizing Extension of Johnson Bank Loan, I would like to provide the following background information that may be useful as you consider the resolution authorizing a two (2) year extension of a loan from Johnson Bank to the Community Development Authority (CDA).

- The CDA was given the option of either a floating interest rate loan starting at 6.09% with no pre-payment penalty for a term of 2 years or a fixed rate loan at 6.89% for 2 years with a 2% pre-payment penalty the first year, 1% pre-payment penalty the second year or none if refinanced with Johnson Bank. Staff are recommending the floating rate.
- Staff solicited proposals from two other financial institutions, however, due to Revival Ridge being in its 15 year compliance period and the short term nature of the loan neither institution developed an offer.
- Staff also discussed the potential of City funding, however, the minimum term is 10 years without a prepayment option.

Recommended Floating Rate Option

Given the small monthly payment (\$5184.48), the short term of the loan, relatively small balance of the loan (\$655,714), lack of pre-payment penalty without further commitment to Johnson Bank, and the current interest rate market staff recommend exercising the Float Rate Option.

The Federal Interest Rate is currently the highest it has been since 2008. After researching numerous financial publications it is in large part agreed upon by the financial community that the Federal Interest Rates are projected to begin coming back down in summer 2023. In the meantime it is stated that rates are expected to experience slight increases before the projected drop.

Revival Ridge is currently in year 13 of the initial 15 year tax credit compliance period. The compliance period ends in January 2024 at which point the CDA will act to refinance the property as a whole and will move to consolidate all debt on the property to the simplest most advantageous structure for the property's continued financial health. This is likely to create a pre-payment situation in regards to the Johnson Bank loan.

Background

The CDA is the managing member of Allied Drive Redevelopment, LLC. The LLC constructed and owns a 49 unit, affordable housing development on Allied Drive ("Revival Ridge"). Revival Ridge was financed in part with affordable housing tax credits and National Equity Fund ("NEF") provided the tax credit equity. In addition, the CDA borrowed approximately \$1.255 Million from Fannie Mae American Communities Fund ("Fannie Mae") and lent those funds to Allied Drive Redevelopment, LLC to pay for a portion of the cost of constructing Revival Ridge. The CDA's loan to Allied Drive Redevelopment, LLC is secured by a first mortgage and payments from Allied Drive Redevelopment, LLC were used to make payment on the loan from Fannie Mae. The terms of the original loan to Allied Drive Redevelopment, LLC were set as:

- Fannie Mae did not require a mortgage or other security, but instead looked solely to the financial strength of the CDA.
- CDA Loan to Allied Drive Redevelopment, LLC
Amount: Rate: \$1,255,000
Term: 4.5%
Maturity: 2038
Security: First Mortgage and Assignment of Leases and Rents which, in the case of default, is not foreclosable.

In 2011, Fannie Mae ended the American Communities program and notified the CDA that it would not be extending its loan to the CDA. The CDA solicited and received proposals from three banks to repay the Fannie Mae loan. Johnson Bank provided the most advantageous terms.

All of the bank proposals required collateral and security in the form of a first mortgage against Revival Ridge and assignment of rents. NEF as the investor in Revival Ridge has the right to review and approve all loans secured by the property. NEF was unwilling to approve a mortgage secured by Revival Ridge to any party other than the CDA. After significant negotiation, Johnson Bank accepted a note from the CDA and the assignment and amendment of the mortgages and notes that run from Allied Drive Redevelopment, LLC to the CDA. NEF after careful consideration approved the assignment and amendment of the mortgages and notes.

In 2017, the loan was taken over by Johnson Bank with a term of 5 years and a 4.38% rate. This is the loan that is currently being recommended for extension with the floating interest rate option.